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TAGS: [ECON](#) [EAGR](#) [VE](#)

SUBJECT: FOOD VULNERABILITIES: BRV POLICY RESPONSES CRACK
UNDER ROLLING SHORTAGES

REF: A. 2006 CARACAS 1897

[1](#)B. CARACAS 470

[1](#)C. CARACAS 994

[1](#)D. CARACAS 2074

[1](#)E. CARACAS 2143

Classified By: Economic Counselor Andrew N. Bowen for reasons 1.4 (b).

[1](#)1. (SBU) Summary: Thanks to growing demand, inflation, strict price controls and other retrograde BRV economic policies, rolling shortages of basic food staples persist. To try to cope the BRV has rolled out massive open-air markets known as MegaMercals (frequented primarily by poor Venezuelans), increased imports, threatened the private sector, and, in an unprecedented move, announced on December 18 that price controls on some basic staples would be loosened, while providing no details. The December 18 announcement was a clear acknowledgment that current policies are not working and the political price being paid is high and growing. Distortions created by the BRV's policies have begun to overwhelm the food supply system, and the strain has begun to show in four to eight hour MegaMercial lines, empty shelves, and frustrated, and occasionally, desperate shoppers. End Summary.

Shortages Persist

[1](#)2. (SBU) Per ref C, D, and E, rolling shortages of staple goods such as milk, black beans, eggs, cooking oil, sugar, flour, meat, rice, toilet paper, etc. have continued unabated despite the BRV's desire to fill the shelves for the December 2 referendum and the holidays. Strict price controls combined with increases in world prices and domestic consumption have caused staples to slowly disappear from supermarket shelves. Although supplies periodically arrive in grocery stores and the Mercals (government-supported discount supermarkets), there is no regularity or predictability to deliveries. The frequency of supermarket visits to see if a particular good is available has gone up substantially during this year. The unpredictability of the market has also created a hoarding mentality, which has only intensified the shortages, as people want to buy as much of a product as they can before it disappears from the shelves.

[1](#)3. (C) Price controls have further aggravated the shortages by rendering domestic production unprofitable (Reftel D), particularly given that inflation is running at approximately 20 percent per annum. Rather than sell their products at a loss, contacts in the agriculture industry have told us that

many producers have simply shifted production to goods without price controls, sold raw materials at higher prices to processed food producers, mixed controlled goods with non-controlled goods, or their food has "disappeared" across the border to Colombia. Most domestic milk producers, for example, have been selling their raw milk to cheese and yogurt producers who use the milk to produce non-price controlled products. This has led to a paradoxical situation where one can find just about any expensive cheese in Venezuela, but no milk.

White Gold

14. (U) Milk shortages have hit Venezuelans especially hard and provide an excellent insight into how the shortages have affected the country. Historically, milk has been the most consumed product in Venezuela and the average Venezuelan views it as an essential product to keep children healthy. However, after four years of price controls, the supply of milk has reached dangerously low levels. According to a Datanalysis poll, 72 percent of supermarkets in Venezuela reported not having any milk to sell in September. Rodrigo Cabezas, the Minister of People's Power for Finance, also told the local press on December 18 that the available milk supply only met 10 percent of domestic demand. (Note: Industry sources believe Venezuelans consume approximately 77 liters of milk per year. The FAO recommends 120 liters per year, roughly the same amount of milk Venezuelans were consuming in 1988. End Note.) An industry expert told EconOff that milk lasts for an average of two hours on Venezuelan supermarket shelves.

15. (U) Due to the desperation for milk, some supermarkets have had to virtually shut down when shipments of milk arrive

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in stores as rowdy customers, often alerted via text message, mob the dwindling milk supplies. One contact told EconOff that she was at the salon getting her hair done when someone received a text message that there was milk available in a local grocery store. The owner closed the salon, and all the employees and customers, some with curlers and dye still in their hair, rushed out to buy the milk. There are also numerous stories of women coming to blows over the last case of milk or milk men being attacked as they unload the product.

Inflation Prices Out the Poor

16. (SBU) Persistent inflation, especially on food and non-alcoholic beverages has worsened shortages and increased the appeal of Mercals to the average poor Venezuelan. Even with the highest inflation in Latin America, the BRV only periodically revises price controls, making it consistently less profitable to sell these goods. When Venezuelans cannot find price controlled goods in the supermarkets or Mercals, they have been forced to substitute them with more expensive non-controlled items. According to the Venezuela's Central Bank (BCV) and the analytical firm Santander Investment, the prices for non-regulated food items have increased by 30.2 percent from January to November, while the prices of controlled goods have only increased by 10.2 percent.

Mercal's Not up to the Task

17. (SBU) Since the BRV subsidizes Mercal prices, most goods are sold below the controlled prices and are on average 150 to 300 percent less than prices at regular grocery stores or the black market. For example, purchasing powdered milk in a

Mercal can mean a windfall savings for the average Venezuelan. One can now find a kilo of powdered milk for Bs. 4,700 (USD 2.19) in a Mercal, while the same item costs between Bs. 30,000 (USD 13.95) to Bs. 40,000 (USD 18.60) on the black market. While this is only one product, a similar calculation can be made on nearly all of Mercal's staple products, especially for products used to make traditional Christmas dishes.

18. (SBU) With the average Venezuelan unable to find price controlled staple products in supermarkets and rapid inflation pricing many poor Venezuelans out of the black market, Mercal, the former flagship of Chavez' social programs, has come under increased pressure to meet the soaring consumer demand for government subsidized food. According to the Minister of the People's Power for Food (MINAL), Gen. Rafael Oropeza, the BRV, through Mercal, distributes 14.4 percent of the food in Venezuela. He also claimed that it distributed 130 thousand tons of food in November, up from 110 thousand tons in October and 60 thousand tons in January. However, after denying the existence of shortages in Mercals for months, Felix Osorio, the president of Mercal, acknowledged that the BRV was incapable of consistently stocking the 15,625 Mercals with staple goods, explaining, "you can't keep Mercals supplied with meat, chicken, milk, eggs, and sugar for the whole day, nor week, because at the point of sale they consume in seven days what should be consumed in a month." Oropeza has fended off criticism, arguing, "Mercal wasn't designed to meet the demand of the whole population, only the popular classes. Mercal's operations are already at maximum velocity." (Note: According to Oropeza MINAL's funding only allows him to purchase a maximum of 130 thousand tons of food per month. End Note.)

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Econoff's Shopping Experience at Chavez' Mercal
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19. (SBU) As the pressure on the Mercals increases, service and product availability continue to deteriorate. Econoff recently visited six Mercals for a firsthand look in low and low-middle income areas of Caracas. Of the six Mercals visited, three were closed (one had been robbed and the other two were being remodeled), and the three that were open had prohibitively long lines. Econoff waited in line for an hour in one Mercal before giving up after realizing the line was not moving and entered a different Mercal after an hour and half in line. Although Mercal supposedly only sells "first need" food products such as milk, black beans, cornmeal,

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rice, etc., EconOff observed shelf space, where there used to be essential goods, filled with imported products such as granola, canned ham, soy sauce, among other less essential products. There were also limits on the quantity of items you could purchase; one only could purchase one kilo of powdered milk, the most coveted product. The quantity restrictions have become a new and unwelcome feature in Mercals, and people waiting in line told EconOff that they planned on visiting another Mercal afterwards to buy more products. Since EconOff last visited Mercal, workers have started to mark customers' hands with markers to prevent them from visiting other stores.

Not-So MegaMercal

110. (SBU) Given logistical difficulties of supplying all the smaller Mercal stores, the BRV has begun to hold more high-profile open-air markets known as MegaMercals. The bi-weekly MegaMercals usually take place on Sundays in the main avenues of the ten largest Venezuelan cities and often have a street-fair like atmosphere. Besides making it easier to stock goods, MegaMercals are used to generate good press

and help create the impression that the BRV is working to feed the population. People can also apply for a driver license, passport, and information card, something that normally can take up to three months to accomplish. Many of the employees selling the goods in MegaMercals also happen to belong to the military forces or nationalized companies like CANTV.

¶11. (SBU) Even with the carnival like atmosphere and temporary availability of scarce goods, the lines at the MegaMercals have increasingly become prohibitively long. During the BRV's recent December 8 MegaMercal, (initially scheduled for the day before the referendum), customers waited in long lines that wrapped around the military parade ground for an average wait time of five to six hours. The Venezuelan daily, "El Nacional," reported some customers queuing up at 3 AM, only to leave at 11 AM, and others waited in lines for up to 11 hours in Los Teques, a large sprawling suburb of Caracas. Due to the Christmas buying frenzy, the BRV has begun to hold MegaMercals more frequently, and on the weekend of December 15, the BRV held MegaMercals in 8 to 10 states for three consecutive days, where lines again reportedly were five to six hours long on average.

Coping with Mercal's Failure

¶12. (C) Having only recently acknowledged the painfully obvious shortages, the BRV has reacted to its inability to stock the shelves by massively importing, threatening the private sector, and finally removing price controls for long life milk. Oropeza admitted to the local press that 70 percent of the food available in Mercals was imported, up from 30 percent in March (Reftel D). The BRV's lack of technical experience in importing products (despite reported Cuban assistance) has made it difficult for it to consistently import food, especially with tight world supplies in most staple goods. Nevertheless, the BRV has shown that it is willing to take drastic measures to fill the MegaMercals in time for the holidays, including flying in milk from Brazil. According to industry sources in Brazil, the BRV resorted to paying USD 5000 per ton for Brazilian milk plus an extra USD 3000 per ton in transportation costs to fly the powdered milk to Venezuela. The executive director of the National Supermarket Association (ANSA), Luis Rodriguez, told EconOff that each of these planes can only transport 70 tons of powdered milk per trip, which would mean the BRV had to charter more than 140 flights to bring in the 10,000 tons of milk that it planned to supply for the holiday season.

¶13. (C) On December 7, in a surprising move, the BRV lifted the price control on ultra-high temperature processed (UHT) milk, also know as long life milk. Ironically, just two days before the BRV released the gazette notice announcing the removal of price controls on UHT milk, Oropeza told the local press, "The private sector is responsible for the scarcities in Venezuela. They note that the demand has increased and keeps increasing, but they do not take the necessary actions to satisfy it." Oropeza theorized that this could be part of a destabilization plan against President Chavez. During a meeting with the dairy industry, he also warned the private sector that the BRV would re-implement the price control if

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it witnessed "price speculation." Although agriculture contacts view this as a step in the right direction, the BRV left price controls on fresh and powdered milk. Experts estimate that UHT milk represents only 2.5 - 3 percent of Venezuela's milk consumption since the vast majority of the Venezuelan poor consume powdered milk, which allows them to more precisely control their milk consumption.

Division in the BRV

¶14. (C) During a December 13 meeting, Luis Rodriguez, Executive Director of the National Supermarket Association (ANSA), told EconOff that after meeting with both Oropeza and Maria Cristina Iglesia, the very ideological Minister of People's Power for Light Industry (MILCO), he believed there to be a large rift within the BRV on how to handle the shortages and the failure of the Mercals. Rodriguez believed the Minister of Food, despite his public statements, was willing to revise price controls, and authorize more imports to get food back on the shelves. On the other hand, he saw Maria Cristina as an ideologue who wanted to use the shortages as an excuse to attack the private sector. As price controls cannot be revised without concurrence among MILCO, MINAL, the Ministry of People's Power for Finance, and the Ministry of the People's Power for Agriculture and Land, he believed that Oropeza has been left to take the fall as the lines in the MegaMercals get longer and the shelves more empty.

Loosening Price Controls?

¶15. (U) In another possible policy turnaround, on December 18, Rodrigo Cabezas, the Minister of the People's Power for Finance, without offering more details, told the local press that the BRV would implement "an extraordinary food supply plan and will make price regulations more flexible." The BRV has kept price controls on more than 400 items since February ¶2003. Cabezas did not specifically say which price controls it would loosen, but cited the severe milk shortage and a 60 percent incidence of shortages in 10 staple items including sugar and cooking oil (read: only 40 percent of the demand for those products was being met). He explained that the principle reason for changing the price controls was inflation increasing by 4.4 percent in November. However, Cabezas denied that the BRV would remove price controls, explaining, "the neoliberalism in favor of removing all price controls will not arrive in Venezuela unless the governments of "Action Democracy," "the Social Christian Party, and all of the right-wing economists come back to power." Cabezas added that the government hoped to resolve the scarcity problem in a "very short period" and "in particular for milk, sugar and cooking oil" which have been the most scarce.

Comment

¶16. (C) The BRV appears to have realized that the shortages come with a high political cost, and likely contributed to the BRV's defeat on the December 2 referendum vote. With many private producers deciding that it wasn't profitable to produce selected staples -- or at least not profitable to sell them at controlled prices and in traditional channels -- and the government's inability to efficiently distribute food through its Mercals, the shortages have been a concrete reminder of how life has changed under Chavez. The removal of the price controls on UHT milk and the apparent decision to loosen price controls on other selected items represent the first time the BRV has implicitly acknowledged its price control policy contributed to the shortages. Most likely, however, the impetus for the policy change can be summed up in a graffiti statement that was scrawled under a busy Caracas overpass, "No hay leche, no hay reforma" (No milk, no reform).

DUDDY